ANNUAL REPORT
1946

FORTIETH
ANNUAL REPORT
Year Ending July 31, 1946

UNITED GRAIN GROWERS LIMITED

FORTIETH

ANNUAL REPORT

OF

UNITED GRAIN GROWERS LIMITED

FOR THE

FISCAL YEAR ENDING

JULY 31ST, 1946

PRINTED AT THE COMPANY'S PRINTING PLANT
THE PUBLIC PRESS LIMITED, WINNIPEG

BOARD OF DIRECTORS

R. S. LAW
President and General Manager

J. E. BROWNLEE
First Vice-President and General Counsel

JOHN MORRISON
Second Vice-President

DIRECTORS

J. J. MacLellan	Purple Springs, Alta.
M. T. Allan	Neville, Sask.
R. Shannon	Grandora, Sask.
S. S. Sears	Nanton, Alta.
R. C. Brown	Pilot Mound, Man.
J. Stevens	Morinville, Alta.
E. E. Bayne	Winnipeg, Man.
J. Harvey Lane	P.O. Huronville, Sask.
H. W. Allen	Huallen, Alta.

Secretary—Chas. C. Jackson, Calgary, Alta.

Head Office, Winnipeg, Hamilton Building.
Calgary Office, Lougheed Building.
Saskatoon Office, 140 Avenue "A" South.
Edmonton Office, Main Floor, McLeod Bldg.

524 Country Elevators in Manitoba, Saskatchewan, Alberta and British Columbia. Terminal Elevators at Port Arthur, Ont., and Vancouver, B.C.

Fortieth Annual Report

of

United Grain Growers Limited

for the

Fiscal Year ending July 31st, 1946

Presented to the Annual Meeting of the Company held in Calgary, November 5th, 1946.

Report of the President

on behalf of the Board of Directors

This is the fortieth annual meeting of your Company, which commenced business in 1906. That fact is a reminder of its maturity. It also shows that the foundations of the Company were well laid by the pioneers who established it forty years ago, and by those, who, in 1917, brought about the amalgamation with the Alberta Farmers' Co-operative Elevator Company Ltd., which established United Grain Growers Limited under its present name and in its present form. Only a limited number of business institutions have reached such an age as this, and still fewer are the farmers' organizations with such a record. Indeed, even twenty years ago visitors used to come from the United States to inquire into this Company and seeking to learn why it had been more successful and enduring than many farmers' institutions founded south of the international border. Such examination showed then, as it would still show, that the shareholders of this Company had always been determined both that it should be operated for the benefit of farmers and also that it should be conducted on sound business principles.

The forty years of this Company's history have included most of the period of the development of agriculture in Western Canada. Founded by pioneers, the Company grew to keep pace with the growth of agriculture in the prairie provinces. Those years have also been the most important years in the history of all Canada. In fact, when world history is considered, there have been few periods of equal length that have included events of such vast significance as have these past forty years.

A highly interesting story will be told when the impact of such events upon the history of Western agriculture can be traced, and the response of Western farmers to changing conditions is fully recorded. When future histories of Western Canada are written, it will be found that the foundation of your Company, and its development, form an important part of the record. Already books by various economists and historians, to an impressive number, have dealt at length with the establishment of your

Company, and the way in which its story is interwoven with the history of the West. Such matters are customarily treated by writers as among the important and significant developments of the time.

Now, however, history is still so much in the making that little time can be accorded for surveys of the past. On this occasion we shall have to content ourselves with taking note of the fact that this Company was one of the earliest of farmers' organizations in Western Canada, and began as an integral part of the farmers' movement which took form in the early years of the present century. It is recognized as the pioneer of agricultural co-operation in the prairie provinces, not only because of seniority in point of time, but also because it established the foundation on which many other co-operative institutions were subsequently built. The most recent testimony to that effect is to be found in the recent report of the Royal Commission on Co-operatives.

During the past year your Board accepted with great regret the resignation of his directorship by Mr. C. E. Hope, of Fort Langley, B.C., who found it necessary to retire on account of reasons of health. In saying farewell to Mr. Hope, your Board paid tribute to the long, conscientious, and valuable service he had rendered to this Company since 1922 when he was first elected a director.

A by-law of the Company dealing with residential qualifications of directors had previously stipulated that there should be three directors resident in Manitoba, four in Saskatchewan, four in Alberta, and one in British Columbia. It seemed to your Board that the increase in percentage of business arising in Alberta, and various problems connected therewith, called for an increase in Alberta representation, which could only be brought about by dropping the provision for a director from British Columbia. The directors therefore amended the by-law accordingly, increasing the number of directors resident in Alberta to five, in accordance with the arrangement which had prevailed immediately after amalgamation in 1917 of the Grain Growers' Grain Company and the Alberta Farmers' Co-operative Elevator Company to form United Grain Growers Limited. The amending by-law will be brought before this meeting for confirmation.

It became the duty of the Board to fill the vacancy created by Mr. Hope's resignation for the period elapsing until election of directors at this meeting, and Mr. Hugh Allen, of Huallen, Alberta, was accordingly selected.

OPERATIONS OF THE PAST YEAR

The volume of grain handled through your Company's elevators last year was highly satisfactory, reflecting, as in previous years, the continued loyal support of many thousand farmers, both shareholders and other customers, who find satisfaction in dealing with your Company. Inevitably, deliveries at country elevators were somewhat smaller than during the two preceding years when they had been increased by grain carried over on farms from previous crops. By July 31st, 1944, farmers had been able to dispose of most of such carried-over stocks, so that handlings for the past year consisted almost entirely of grain produced in 1945. A large part of Western acreage in 1945 was still in oats and barley, reflecting the diversion to feed grains which had been encouraged by government policy during the war, although there is now a tendency to revert from other crops to wheat. An increasing percentage of these grains has been marketed by farmers concurrently with a reduction in feeding of hogs which has taken place. The market demand for such grains has been greater than quan-

tities available, in consequence of which exports to the United States were severely limited in order to conserve supplies for feeding operations of farmers in other parts of Canada.

The past year saw completed the liquidation of the great Canadlan stock of carried-over wheat which had accumulated during the war and which began to move rapidly out of the country as soon as the war in Europe came to an end. The process of emptying your Company's elevators and temporary annexes of wheat stocks which had accumulated there had already begun during the preceding year, as was mentioned in the last annual report. It was practically completed during the past year, reflecting the insistent demand for food from Canada in Britain, on the continent of Europe and elsewhere.

From the beginning of the war until well lnto the past year your Company had been called upon to store large quantities of wheat which had to be held in Canada until the opportunity to deliver it for consumption abroad should come. To meet that situation required, for a time, not only all the storage capacity which could be provided in elevators but also many million bushels of additional storage space, provided by the erection of annexes to country and terminal elevators. It will be recalled that at July 31st, 1943, the Canadian wheat carry-over, just before the new crop was harvested, stood at 600,000,000 bushels. While at that time the size of the wheat carry-over gave concern to some people, it is now fully realized, not only in Canada but abroad, how fortunate it was that this country was able to accumulate a great food reserve, which during recent months has saved from actual starvation a great number of people in many different countries. It was also fortunate that Canada was able to store such wheat against the hour of world need. The elevator facilities of this country, of which your Company's system forms an important part, must be recognized as performing a function, not only of national but of world importance.

On two occasions the accumulation of large quantities of wheat in Canada has caused not only alarm, but also drastic price declines. Both the alarm and the price declines were later proved to be unnecessary, and the wheat in question was found to be greatly needed. Experience so gained should give the government courage to take necessary steps to deal with any future surplus that develops so as to avoid unnecessary price losses to producers.

As a result of the liquidation of the wheat carry-over your Company's earnings from grain storage were much reduced during the past year in comparison with those of the war years. It would not have been possible to realize a surplus from the year's operations had the Company continued to handle grain on the low margins that prevailed during 1944-45. During that year, thls and other elevator companies, instead of paylng on delivery of wheat the initial payments specified in contracts with the Canadian Wheat Board, paid two cents per bushel extra, in effect handling grain through country elevators for one cent per bushel, instead of the three cents per bushel specified by contract. Buying margins on other gralns were correspondingly reduced. Circumstances which brought about such over-payments and reduced handling charges were detailed in the annual report two years ago, and now it is only necessary to point out that they were made possible by large earnings from storing wheat, which prevailed during the year 1944-45. As there were no corresponding earnings in prospect for the past year, this Company, as was the case with all other companies, reverted, as at August 1st, 1946, to the basis of payments and to a handling charge of three cents per bushel as specified in contracts with the Canadian Wheat Board.

*ERRATA—panies, reverted, as at August 1st, 1945, to the basis of payments and to a

RE-ORGANIZATION OF LOCALS

A considerable number of shareholders have been transferred during the past year from one local to another. That is the result of the establishment of a number of new shareholders' locals at elevator points, with a corresponding discontinuance or consolidation of some locals at non-elevator points. That re-organization followed naturally upon the re-organization of the Company's capital stock structure in 1942. After that date, and after the creation of Class B Membership shares, with a par value of $5.00 each, to which all voting rights are attached, a large number of new holders of such shares became members of the Company. The creation of such shares, which in the future were to be issued only to customers of the Company, was designed to keep voting control of the Company in the hands of active customers. In line with that principle, it is desirable to have shareholders' locals at or convenient to as many elevator points as possible, and to have at non-elevator points no more locals than necessary. Re-organization of locals, however, had to be delayed until after the end of the war when necessary motor car travel by the Company's representatives could be resumed. Most shareholders who have been transferred from one local to another will find the new arrangement more convenient than the former one.

CONSOLIDATED BALANCE SHEET AS AT JULY 31st, 1946

You have already had put before you the consolidated statement for United Grain Growers Limited and subsidiary companies as at July 31st, 1946. That statement conveys the complete picture of your whole enterprise as at the end of the fiscal year. Comment will now be made on the different items appearing thereon.

ASSETS

CASH ON HAND AND IN BANKS .... $ 1,815,622.39

This is the largest amount of cash which the Company has ever carried on hand at the end of a fiscal year. That situation arose because prior to July 31st there had been liquidated most of the grain which the Company had previously been carrying, which meant that to an unusual extent the Company's resources had been turned into cash. Later, comment will be made concerning the liquidation of inventories, and also with respect to temporary investment in bonds made in order to provide employment for a portion of cash resources. One factor which contributed to the Company's cash position was the fact that it had not yet been possible to pay out the patronage dividend reserve accumulated during recent years, to which subsequent reference will also be made.

DOMINION OF CANADA BONDS 1,890,500.00

Towards the end of the fiscal year, as grain which the Company had been carrying was turned into cash, these bonds were acquired in order to obtain an interest return until cash should again be needed for handling the new crop.

ACCOUNTS AND BILLS RECEIVABLE 566,030.71

This amount includes storage and carrying charges and other accruals after providing for doubtful accounts. A considerable part represents amounts due from the Canadian Wheat Board.

INVENTORIES, GRAIN	$ 2,506,151.02	

As is shown by note on the Balance Sheet, these inventories include net book stocks of wheat and flax acquired on behalf of and deliverable to the Canadian Wheat Board, valued on basis of fixed prices set by that Board and stocks of coarse grains valued on basis of quoted market prices.

Grain Inventories are made up almost entirely of grain in country elevators or in transit to terminal elevators. Under prevailing conditions very little grain is carried by the Company on its own account in terminal elevators. With respect to wheat and flax, these are turned over to, and settled for by, the Canadian Wheat Board on arrival at terminal elevators where they are subsequently stored for account of that body. The prevailing practice with respect to coarse grains, on account of market conditions, has been to dispose of them on arrival at terminal elevators, where they are subsequently carried for the account of purchasers.

There is a great contrast between the small inventory above recorded and that carried at the same time in recent years. As at July 31st, 1943, when the Canadian wheat carry-over was at its height, the grain inventory stood at the highest figure in the Company's history, more than $19,000,000.00. At July 31st, 1944, it was $17,387,100.38, while at July 31st, 1945, it was $9,608,325.93. This reduction in inventories is simply a reflection of the fact that after accumulation of a great Canadian wheat reserve during the war, this was rapidly shipped out towards and after the end of the war and has now disappeared.

INVENTORIES OF TWINE, COAL AND SUNDRY MERCHANDISE AT COST	834,912.37	

These inventories were larger than at the corresponding period last year, due to changing conditions affecting the handling and marketing of different commodities, principally coal, binder twine, and feeds.

TOTAL INVENTORIES		$ 3,341,063.39
DEFERRED AND PREPAID CHARGES		121,256.80

Included in this amount are such items as prepaid insurance, taxes, and licenses, and operating supplies purchased in advance of requirements for the next fiscal year.

TOTAL CURRENT AND WORKING ASSETS		7,734,473.29

This amount is much smaller than in recent years, due to the small year end grain inventory. The reduction is, of course, accompanied by a corresponding reduction in the Company's current liabilities, and, as will be seen when we come to the other side of the Balance Sheet, there were no bank borrowings at the end of the year. The Company's working capital position is to be found by deducting from the amount above the total of current liabilities shown on the opposite side of the Balance Sheet, $5,579,152.03. The working capital is thus $2,155,321.26. While that amount may seem large in view of the cash position above shown, the possession of a satisfactory working capital puts the Company in a good financial position to handle a large amount of business.

INVESTMENTS		$ 97,240.69

Included in the various items covered by this amount is $1.00 to cover memberships held by your Company in different grain and produce exchanges. For some years the practice has been followed of carrying these at a nominal figure only, in view of the uncertain and fluctuating value of such memberships. There is included an item of $1,661.00 representing an investment in a company through which this and other companies operating terminal elevators at the lakehead are accustomed to dispose of elevator screenings. Various mortgages and agreements of sale are included, representing to a large extent the financing of cottages constructed to accommodate elevator agents who have undertaken to purchase such cottages.

EMPLOYEES' PENSIONS		187,541.44

This represents the amount paid to the Annuities Branch of the Dominion Government when the Company's pension scheme was inaugurated, less amounts written off to date, at the rate of 10% annually.

The pension plan was authorized at the annual meeting in 1941, and has since operated much to the advantage both of employees and of the Company. The annual appropriation in this connection constitutes an allowable deduction for income tax purposes, a concession made by the government in order to encourage various companies to adopt such plans, which now prevail widely. Under the plan a number of employees have been retired during recent years on a suitable basis, and on account of the plan the Company has been able to retain the services of other employees who might otherwise have been tempted by offers from other companies.

COUNTRY AND TERMINAL ELEVATORS, SITES, WAREHOUSES AND EQUIPMENT, ETC., AT COST	$12,164,646.53	
LESS RESERVE FOR DEPRECIATION	7,193,073.89	

This reserve for depreciation includes $503,885.59, appropriated for the past year, as will appear when we come to consider the statement of profit and loss and earned surplus. As will be seen from the above figures, approximately 60% of the cost of capital equipment is now covered by the reserve for depreciation, so that such assets are carried into the Balance Sheet at a net amount of $4,971,572.64. Following is an analysis of the reserve for depreciation:

PROPERTIES AND DEPRECIATION RESERVE

	Book Value	Reserve For Depreciation	Net Book Value
Country Elevators, Cottages, Sheds, Sites, etc.	$ 8,093,176.43	$5,024,128.38	$3,069,048.05
Terminal Elevator and Equipment and Site	3,110,245.94	1,426,732.95	1,683,512.99
Printing Plant and Equipment and Sites	562,802.55	411,922.87	150,879.68
Miscellaneous Equipment, including Office Furniture and Equipment	398,421.61	330,289.69	68,131.92
	$12,164,646.53	$7,193,073.89	$4,971,572.64

The figures for capital assets do not include the cost of temporary annexes, which the Company still has at a large number of country elevators. In accordance with arrangements made when annexes were built, during 1940 and later, to provide additional storage needed for the Canadian wheat carry-over, the capital cost of such buildings was written off, for income tax purposes, within two years after construction. At the same time it was provided that any returns to the Company from subsequent disposal of annexes would constitute taxable income in the future. The terminal elevator annex at Port Arthur was disposed of last year and also a number of country elevator annexes. Release of the lumber from which these were constructed has provided a certain amount of building material much needed on the prairies on account of current lumber shortage.

PUBLICATION ESTABLISHMENT ACCOUNT............$	93,275.93	

This is the amount at which there is carried in the books the cost of establishing the Company's magazine, "The Country Guide."

CAPITAL ASSETS		$ 5,064,848.57

This is the total book value of capital assets above dealt with.

TOTAL ASSETS		$13,084,103.99

LIABILITIES

BANK LOANS AND OVERDRAFTS............	Nil

There is no item under this heading in the Balance Sheet now before you, for the reason that the Company's bank loans, which at times during the past year have been large, were completely paid off before the end of the fiscal year, due to the liquidation of grain inventories which has already been referred to.

Last year under this heading the amount was nearly $3,000,000.00; one year earlier it had been over $10,000,000.00; and two years earlier it had been over $15,000,000.00. Large bank borrowings necessarily occur from time to time in the operation of the Company's business. In this connection it should be pointed out that the initial Wheat Board payment on wheat delivered at country elevators is financed by the Company from its own resources or on its own credit and the Company is reimbursed only when wheat is later delivered at terminal elevators or shipped elsewhere, under instructions of the Board. The same applies to the fixed price paid for Flax.

GRAIN CASH TICKETS AND ORDERS OUTSTANDING	$ 1,147,849.21

This amount is less than the corresponding amount last year, when deliveries during July had been heavy, by over $1,000,000.00. Grain cash tickets and orders outstanding represent obligations which the Company must be prepared to meet on demand, for which purpose large amounts of cash are carried with paymasters.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 1,101,742.15

Included in this item are accounts for coal, binder twine, and other supplies, in process of payment. There is also included $40,826.00 representing appropriations for the past three years for dividends at 5% on the Company's Class "B" membership shares. In accordance with decision made by the delegates at the annual meeting three years ago, these amounts are allowed to accumulate from year to year in order that a substantial payment at one time may later be made on Class "B" shares.

RESERVE FOR INCOME AND EXCESS PROFITS TAXES	685,109.08

This amount represents accumulation of estimated income and excess profits taxes. Until October 1st, 1944, the Company had been accustomed to make regular payments to the Income Tax Department against amounts which might later be assessed on this account against the Company. At that time, however, the Company suspended monthly payments which were called for by the Income Tax Act, because it was felt that the Company might later have a claim against the Income Tax Department for adjustment when the question of taxing co-operative companies should finally be settled. That problem will be discussed in a later section of this report. Included in the above is $215,000 appropriated for the past year. Taxes for that year will probably be settled by an early payment as the tax situation is now definite for the past year, although uncertainty still prevails in connection with earlier years.

PATRONAGE DIVIDENDS	2,475,000.00

This amount includes $175,000.00 provided for the past year, which will be paid out early in 1947, as there is no tax uncertainty in this connection. Also included are various amounts, to a total of $2,300,000.00, providing for patronage dividends during four preceding years, payment of which had to be held in suspense pending clarification of the tax situation, a problem discussed later in this report.

SHAREHOLDERS' DIVIDENDS	169,451.59

This amount includes the dividend of 5% declared on Class "A" shares for the past year to the amount of $141,696.00. There are also included various amounts representing unclaimed dividends of prior years. Each year a certain percentage of the annual dividend remains, unclaimed for a period, due to changes of addresses of shareholders, until the Secretary can ascertain where cheques should be sent.

TOTAL CURRENT LIABILITIES	$ 5,579,152.03

Comparison of this item has already been made with the item of $7,734,473.29, representing total current assets.

FIRST MORTGAGE BONDS	$ 2,000,000.00

This represents an issue of $2,000,000.00 of 3% serial bonds, dated July 2nd, 1946. The bonds in question are repayable at the rate of $200,000.00 annually, over a ten-year period. This replaced a former bond issue which, at the date of the previous annual report, was outstanding in the amount of $2,400,000.00. That issue included $1,000,000.00 of serial bonds due at the rate of $200,000.00 annually on March 1st of each year to 1950; the earlier ones at a rate of 3½% and those due in 1949 and 1950 at a rate of 4%. It also included $1,400,000.00 of 4¼% Sinking Fund Bonds due March 1st, 1958. The issue in question had been made in 1943 to an amount of $2,800,000.00. When made, it was hardly anticipated that re-financing would take place again at so early a date. However, prevailing interest rates had declined to such an extent, and the bond market was so favourable in July, as to make possible a considerable saving in interest costs through recalling the old bonds and making a new issue, which step was accordingly taken. The Company's ability to issue bonds at so low an interest rate and, moreover, to sell such bonds at a premium, as was done, is a tribute to the high credit standing of your Company. The issue was made at a very favourable time when general interest rates had reached a low point, from which there has since been some advance.

CAPITAL, RESERVE AND SURPLUS	5,504,951.96

This amount represents the shareholders' equity in United Grain Growers Limited, made up as follows:

CLASS "A" SHARES	2,833,920.00

The authorized issue is 200,000 shares, par value $20.00 each. There have been issued, in all, 148,322 shares of which 6,626 shares have been redeemed by purchase since issue. These are non-voting shares, holding of which by any one person is limited to a par value of $5,000.00. Until 1942 the capital of this Company was represented by only one class of shares, with a par value of $25.00 each, holding of which was restricted to farmers, the owners and lessees of farm lands and the wives of such persons. In that year the capital structure of the Company was reorganized, the former shares were recalled and two new classes of shares were established. Previous restrictions had resulted in a narrow market for the Company's shares, the holders of which had sometimes found low prices prevailing if they had to dispose of their shares. A wider market was provided by allowing this class of non-voting shares to be generally held, and also by providing that the Company might redeem them by call at $24.00 per share or by purchase in the market. Various purchases in the market have been made from time to time and a total of 788 shares was redeemed during the past year. That these shares are held in esteem is shown by a strong demand which now prevails for the limited number of shares which come on to the market from time to time.

CLASS "B" MEMBERSHIP SHARES	$ 251,175.00
The par value of these shares is $5.00 each and voting control of the Company rests exclusively with the holders of such shares, of which not more than 25 may be held by any one person. The total authorized issue is 200,000 shares, of which 54,284 have been issued. Of these, 4,049 shares have been repurchased and are held available for issue to customers who desire to become shareholders. Authority for such purchase and re-issue up to 10% of issued Class "B" shares was obtained from Parliament, when the Company's charter was last amended, in order to provide machinery for the transfer from former holders to new members, with the object of ensuring that voting control should remain in the hands of active customers of the Company.	
GENERAL RESERVE	1,647,057.42
This general reserve, established during the Company's earlier years, has remained unchanged for some time.	
CAPITAL SURPLUS	154,797.57
This surplus has arisen through redemption and cancellation of the Company's shares from time to time and has grown on that account during the past year by $15,760.00.	
EARNED SURPLUS	618,001.97
This amount represents undistributed and unallocated profits accruing over a period of years.	
TOTAL	$13,084,103.99
This amount, which is the total of the Company's assets, is also, as is apparent from the foregoing, the combined total of its liabilities and the shareholders' equity.	

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS

We turn now to the Consolidated Statement of Profit and Loss and Earned Surplus, which shows earnings for the fiscal year ending July 31st, 1946, of $1,180,134.22, which amount was arrived at after charging $175,000.00 for patronage dividends. Earnings in question were close to those accruing during four preceding years, during which larger appropriations for patronage dividends were established. From the earnings shown it is necessary to make various deductions in order to arrive at the Company's taxable profit for the past year. Bond interest amounted to $91,447.67; directors' fees to $9,485.00; counsel and legal fees and remuneration of salaried directors $40,208.35, and Annual Meeting expenses $19,929.07. The largest deduction is provision for depreciation of capital assets to the amount of $503,885.59. After total deductions of $664,955.68, we arrive at the amount of $515,178.54 on which income tax is calculated. A deduction of $215,000.00, to cover estimated income and excess profits taxes, leaves the profit for the year at $300,178.54. Addition of that profit to the earned surplus as at July 31st, 1945, of $598,457.91 gives a total of $898,636.45. From that various deductions have to be made, of which the first is $12,763.00,

Figures given in this report were supplemented, when presented to delegates, by statistical information as to volume of business, and figures for earnings and expenses of United Grain Growers Limited and subsidiary companies.

appropriation for redeeming and cancelling 788 Class "A" Shares of the Company's capital stock. A dividend of 5% declared on Class "A" Shares amounts to $141,696.00 and provision for dividend on Class "B" Shares to $13,571.00. Balance of bond discount and expenses as at July 31st, 1945, incurred in respect of the Company's former bond issue, has been written off to the extent of $67,201.88. The final deduction is the amount of $45,402.60 covering net charges incurred in connection with the refinancing of first mortgage bonds during the year. After making these deductions, to a total of $280,634.48, the Earned Surplus Account as at July 31st, 1946, stands at $618,001.97.

THE COMPANY'S ELEVATOR SYSTEM

During the past year three elevators were sold, two elevators were purchased, and one was exchanged for another. That left the total number of country elevators at the year end at 524. At the close of the fiscal year there were also at country points 59 permanent annexes, 282 country annexes, 292 coal sheds, 270 flour houses, 36 corn cribs and 294 agents' cottages. The number of the latter increases from year to year as the Company finds it necessary to provide living accommodation for agents. During the year 90 temporary annexes had been sold.

The terminal elevator at Port Arthur, the capacity of which is 5,500,000 bushels, is owned by the Company. As already mentioned, the temporary annex adjacent thereto, with a capacity of 4,000,000 bushels, was sold and dismantled during the past year. The Company's Port Arthur elevator, although it has now been in operation for over 18 years, is still one of the most modern and best equipped at the lakehead. It is provided with automatic car dumpers which greatly facilitate rapid unloading, something which has been of great value during recent years, as otherwise the Company could not, with the labour supply available, have taken care of the large volume of grain handled through this elevator.

Extensive and costly additions to the equipment at Port Arthur, in order to provide additional safety measures against explosion and fire, have become necessary. Some time ago a disastrous dust explosion, followed by fire, occasioned not only great damage but also loss of life in a terminal elevator at the lakehead operated by another company. New governmental regulations were promptly framed, calling for greater precaution against such hazards than had formerly been thought necessary. In consequence, new dust collecting equipment, and other devices are to be installed in your elevator as rapidly as material becomes available.

At Vancouver, B.C., the Company operates a terminal elevator, with a capacity of 2,600,000 bushels, which is leased from the Dominion Harbours Board. During the war years handlings through that elevator were small because the Alberta crop instead of being largely exported by the Pacific route, as is the case in normal times, had to be sent to market by the eastern route. As a result, additional freight costs, to a large amount, had to be paid by the Canadian Wheat Board, but this did not affect prices paid farmers for wheat as these are based on freight rates to Vancouver whenever they are lower than freight rates to the head of the lakes. During the years in question the elevator at Vancouver was kept filled with grain stored for account of the Wheat Board. Already there has been a large revival of shipments from Vancouver and it is expected that during the current year shipments through that port will be heavy.

During the past year, as well as during the two preceding years, your Company also operated under lease a terminal elevator at Victoria, B.C., owned by that city, with a capacity of 1,000,000 bushels. That operation has now been discontinued owing to lessened need for grain storage.

At North Edmonton the Company owns and operates a plant, including both country and a terminal elevator, through which an extensive business has been developed in high quality recleaned oats from Northern Alberta for shipment to Eastern Canada and elsewhere.

At South Edmonton a country elevator is operated in conjunction with a plant for the manufacture of feeds, to be referred to in the following section of this report.

FARM SUPPLIES DEPARTMENT

This department of your Company's business again realized a moderate, but only a moderate, return over the cost of operation. The chief value of the Farm Supplies Department rests not on its earnings but on its ability to render a highly valued service to customers of the Company.

Binder twine continues to be one of the major commodities handled by this department. Owing to the growth of combine harvesting, the volume of sales of twine now annually made falls somewhat short of the peak reached some years ago. Nevertheless a very large quantity of binder twine is still used and many thousand farmers rely both on the quality of twine furnished by your Company and also on its distribution system to have twine available where and when required. After the outbreak of war with Japan the only sisal available for twine manufacture on this continent was that produced in Mexico. Supplies of fibre from other sources were shut off except for that produced in East Africa which was altogether absorbed in Britain. Now manufacturers are able to get some fibre elsewhere than in Mexico. As a result the wartime quality of twine is disappearing and binder twine is again being manufactured 550 feet to the pound instead of being uniformly 500 feet to the pound as was formerly the case. During the war the government found it necessary to subsidize fibre imports in order to keep prices down to the ceiling basis. As increased supplies of fibre are available the need of such subsidies may be lessened.

Your Company continues to be one of the major distributors of coal in Western Canada and it is interesting to note that the volume of coal business has been increasing steadily from year to year. At various times during recent years, because of difficulties associated with supplies, fuel shortages have been threatened and serious difficulties have been avoided only by a narrow margin. Fortunately buyers of coal have heeded warnings frequently made and as a result are now accustomed to lay in their winter supplies of fuel much earlier than used to be the case. That fact is reflected in very large sales of coal made by your Company during the past few months.

One important development of recent years has been the manufacture of a line of livestock feeds in a plant operated by the Company at South Edmonton. Under the brand name, "Money-Maker," these feeds have won a wide acceptance from livestock feeders. The volume of sales has shown a steady increase from year to year, and that increase has not been checked by the reduction in hog production which has occurred recently in the West. An increasing percentage of livestock feeders are providing balanced rations, which, experience shows, are necessary to ensure the best and most

economical use of grain fed. Undoubtedly, in this operation the Company is performing a service of value to livestock feeders. Great care is taken to maintain the high quality of the product, and in consultation with officials of Dominion and provincial departments of agriculture and with universities to make sure that the formulas for different feeds agree with the latest scientific information on livestock nutrition. During the early years of the enterprise many difficulties were encountered because of shortages of essential ingredients, particularly protein supplements. As these were overcome it was possible to enlarge the volume of manufacture. From the plant at South Edmonton it is possible to supply the Company's customers only in Alberta and Northern Saskatchewan. There are still obstacles in the way of establishing another plant to serve other parts of the prairie provinces, although these will probably not continue indefinitely.

SUBSIDIARY COMPANIES

Mention will now be made of the operation of subsidiary companies. Each of these is wholly owned by United Grain Growers Limited and the Board of Directors and the management of each is the same as that of the parent Company. Each subsidiary company is financed by United Grain Growers Limited, and keeps its surplus funds on deposit with the parent Company. Each operating subsidiary, continuing the record of former years, contributed satisfactorily to the Company's net earnings for the past year.

Two subsidiary companies have been mentioned which have not been in operation for a number of years. These are United Livestock Growers Limited, through which the Company's livestock business was formerly carried on, and the Grain Growers Export Company Limited, through which an export business in grain was formerly conducted although that has been discontinued for a number of years.

UNITED GRAIN GROWERS TERMINALS LIMITED

Through this subsidiary Company the operation of terminal elevators at Port Arthur and at the Pacific Coast is carried on, although the terminal elevator at Port Arthur is owned by the parent Company, which also leases the terminal elevator at Vancouver from the Dominion Harbours Board. The operation of country and terminal elevators is so closely integrated as to constitute a single business. It is, nevertheless, found convenient, for technical reasons, to have a separately incorporated Company for terminal elevator operation.

THE COUNTRY GUIDE LIMITED

This wholly owned subsidiary Company publishes your Company's magazine, "The Country Guide." The earnings of that publication for the past year were on a highly satisfactory basis, continuing the record of the previous year. Equally satisfactory is the fact that "The Country Guide" has maintained and improved its standing as the leading agricultural periodical of western Canada, and is one of the important publications in the magazine field of all Canada. Its popularity among readers is shown by the fact that the monthly circulation now is very little short of 200,000 copies. That circulation would be still larger had not the paper shortage in Canada prevented further expansion. The volume of advertising continues at a high level, reflecting both the fact that "The Country Guide" is recognized as a valuable advertising medium and the fact that among

its readers there is a high purchasing power as well as a strong demand for goods. Except for the difficulty of obtaining paper supplies, it would have been possible to accept more advertising and to publish larger monthly issues. Shareholders have every right to take pride in the high quality of their publication and the widespread recognition which prevails of its value.

It is with regret that your Board has to announce the retirement of Mr. R. D. Colquette from his position as one of the joint editors of the "Guide." Fortunately, although he will be no longer resident in western Canada, he will be able to continue as a contributing editor. Much of the success of "The Country Guide," and particularly the high standard of its editorial page and comments on current events, must be attributed to Mr. Colquette's talents and to his unfailing devotion to his work manifested over many years.

From the beginning of the war until midsummer Colonel P. M. Abel had been on leave from his editorial duties with "The Country Guide." During six years overseas he rendered outstanding military service to Canada in recognition of which he was awarded the O.B.E. Before returning to Canada Col. Abel spent some time in studying agricultural conditions in Great Britain and on the continent of Europe, and some of his observations have already been published.

Early in the war Mr. H. S. Fry joined the Editorial Staff of "The Guide" and in the succeeding years has made a name for himself as one of the top ranking agricultural writers in Canada.

It is with satisfaction and confidence that the Board looks towards the future of "The Country Guide," the editing of which now rests jointly on the shoulders of Col. Abel and Mr. Fry.

THE PUBLIC PRESS LIMITED

The actual printing of "The Country Guide" is done by another subsidiary company, The Public Press Limited, which owns and operates a printing plant for this purpose as well as the substantial building in which it is housed. The Public Press also does necessary printing for the Company. In addition, it does a certain volume of printing for the general public, and is recognized as producing high quality work. Operations for the past year realized a satisfactory surplus.

UNITED GRAIN GROWERS SECURITIES CO. LTD.

A general insurance agency business is carried on by your Company through United Grain Growers Securities Company Limited. An important part of the business done consists in placing insurance on the Company's properties and on grain carried in its elevators. The volume of such business and the earnings thereon, while still considerable, showed a decline last year from the previous year because there was a smaller volume of grain in store to be insured. Volume of business with farmers, however, increased, principally because of a growth in demand for hail insurance. Policies for farmers, and to some extent for the general public, are written through agents at different points, including both elevator agents and others. Information on insurance can always be obtained on application to any elevator or office of the Company. Policies cover hail, fire, automobile and accident insurance.

Earnings of the Securities Company arise from commissions paid by the companies issuing policies. For the past year, as in earlier years, these have been substantial.

INCREASE IN STORAGE CHARGES

During the past year the maximum storage charge in country and terminal elevators was one forty-fifth of a cent per bushel per day. For the present crop year an increase to the normal storage rate of one-thirtieth of a cent per bushel per day in terminal elevators authorized by the Board of Grain Commissioners has been put into effect by all elevator companies, including both the farmer owned and the privately owned companies. That increase was subsequently concurred in by the Canadian Wheat Board and later approved, although after some delay, by the Wartime Prices and Trade Board, without whose approval advances in rates and prices cannot be made. Thus, after getting the approval of one governmental body, the Board of Grain Commissioners for Canada, one of whose principal duties is the regulation of such rates, it was necessary to get the concurrence of a second governmental body, the Canadian Wheat Board, which organization, like the Board of Grain Commissioners, is thoroughly familiar with conditions affecting elevator operations. Then, the approval of a third governmental body had to be obtained.

Under war conditions the large volume of grain carried in store had justified reductions from normal storage rates. The Board of Grain Commissioners had, for a time, set the maximum storage rate as low as one-fiftieth of a cent per bushel per day and in Pacific Coast elevators one-sixtieth of a cent. For grain stored on its account in country elevators the Canadian Wheat Board, one year, had made the rate one fifty-fifth of a cent per bushel per day. With the decline in volume of grain to be stored after the wartime carry-over had been liquidated, it was recognized by all concerned that elevator operations could no longer carry on under such extraordinarily low rates.

It was the opinion of your Company that the rate for storage in country elevators should also be restored to the normal basis of one-thirtieth of a cent per bushel per day. Application to that effect has not yet been granted by the Board of Grain Commissioners.

In making representations in this connection, your Company pointed out that under present conditions farmers are not concerned, except to a very small extent, with storage rates, which are mainly at the expense, not of producers, but of buyers of grain. That fact is illustrated by the British wheat contract which specifically provides for payment of storage costs by Great Britain, and that is the case whether wheat covered by the contract is stored in country elevators, in terminal elevators in Western Canada, or elsewhere. Similarly, storage charges on wheat for domestic consumption in Canada are assumed by the government.

All elevator companies had asked the Board of Grain Commissioners to approve an increase in terminal elevator handling charges of one-quarter of a cent per bushel. The Board of Grain Commissioners authorized this to the extent of only one-eighth of a cent per bushel, but that increase has been disallowed by the Wartime Prices and Trade Board. The grounds for that application were higher labour costs and increased capital investment necessary to provide new safety devices in terminal elevators.

Your Board asked for no increase in country handling charges, recognizing that these, which are a direct cost to the producer, should be kept as low as possible. It confined its application to charges which are largely borne by purchasers of grain and to an important extent by interests outside of Canada. It is to the interest of producers that reasonable revenue

should be obtained from such sources, maintaining the ability of an elevator company to serve its customers at the lowest possible cost.

TAXATION OF CO-OPERATIVES

The annual report a year ago contained an account of recommendations made by your Company to the Royal Commission on Co-operatives. Copies were distributed at that time of the presentation made by your president to the Commission, and of the argument made by the Company's counsel, and these were endorsed by a resolution of the meeting. Shortly thereafter the Royal Commission made its report to the Government. At the 1946 session of Parliament amendments to the Income Tax Act were passed which, in principle, were based on the recommendations of the Commission.

The report of the Royal Commission, a lengthy document of 245 pages. copies of which may be obtained from the King's Printer at Ottawa, deals with your Company specifically by name, and accords recognition, not only to its status as a co-operative, but also to its historic position as the pioneer of agricultural co-operation in Canada. So, too, the budget speech of the Minister of Finance on June 27th, 1946, in which your Company was specifically named, dealt with the share capital type of co-operative to which your Company belongs, in the following words:—

> "Share capital with a limited dividend and with limitation of voting to one share per member rather than one vote per share was a characteristic feature of the plan of organization of the Rochdale Equitable Pioneers Society, the real founders of the co-operative movement." (Hansard P. 3006).

The report of the Commission and the subsequent legislation accorded with the most important recommendation made by our Company to the Royal Commission. Although co-operatives are not given a general exemption from income tax, as a limited class of co-operatives had been given under previous legislation, patronage dividends paid by any company are now recognized as deductible in the calculation of income tax. That provision is to come into effect with the taxation year ending in 1946. In consequence the Company will not be taxed on patronage dividend to be paid on last year's business, and future patronage dividends. The legislation in exempting patronage dividends paid by any company goes beyond this Company's recommendation, which had been for such exemption on patronage dividends paid by co-operatives and companies in close and direct competition therewith.

Neither the Commission nor the government accepted another recommendation made by your Company for similar exemption for limited dividends or interest on capital paid by co-operatives and companies in close and direct competition. The government adopted the theory that returns on capital should come out of taxable income. In that connection a proviso was inserted to the effect that the deductions of patronage dividends will not reduce a taxpayer's taxable income below three per cent of capital employed. That proviso will not restrict patronage dividends paid by your Company, accustomed as it is to make prior provision, which must come out of taxable income, of five per cent on shareholders' capital.

The new legislation does not affect patronage dividends paid or provided for taxation years ending prior to 1946. The government has undertaken by administrative action to make some important concessions with

respect to taxation during past years when uncertainty prevailed in respect of the tax status of co-operatives generally and also of patronage dividends. Since 1940 your Company had steadily contended that patronage dividends were exempt under the law as it formerly stood. That claim was at first admitted, and later denied, by the Income Tax Department in respect of a patronage dividend paid on the 1940 crop. As a result, appropriations in subsequent years for patronage dividends had to be kept in reserve pending settlement of the tax question, with uncertainty prevailing with respect to taxes on the following sums paid or appropriated for patronage dividends.

For 1940-41	$ 200,000	Paid.
For 1941-42	375,000	Appropriated and held in reserve pending settlement of tax question.
For 1942-43	400,000	" " " " "
For 1943-44	1,225,000	" " " " "
For 1944-45	300,000	" " " " "

According to announcement made by the Minister of Finance in his budget speech, the government is prepared to allow as tax exempt $975,000 of this Company's patronage dividends for past years, on condition that a compromise tax settlement is made by certain other grain co-operatives which until now have not paid any income taxes. Mr. Ilsley's announcement in this connection was as follows:

> "The government is willing to relieve the wheat pools from any liability for tax for fiscal years earlier than those ending in 1942. Furthermore, the government is willing to allow as a deduction from taxable income patronage dividends, refunds of excess charges, and similar amounts actually paid in cash by the wheat pools in fiscal years ending in 1942 and 1943, but not in 1944 and 1945, because well before 1944 these organizations were aware of the legal opinion of the Department of Justice. Patronage dividends distributed or set aside for payment pending settlement of the tax issue by the private elevator companies and the United Grain Growers will be accorded the same treatment as similar payments made by the wheat pools, that is, if the wheat pools accept the foregoing basis of settlement, they will be allowed as a deduction from income for the taxation years up to and including 1943 but not for later years.
>
> "Under all the circumstances, the government believes this is a most reasonable compromise and offers it as a basis of settlement. If it is not acceptable to the organizations concerned, the courts must determine the legal position." (Hansard P. 3008).

On account of the above quoted announcement, your directors have expected that early action would be taken by the government to release amounts held in reserve for patronage dividends for 1941-42 and 1942-43. Preparations have been made for payment early in 1947, but so far the government action on which such payment depends has not been taken. Your directors do not believe that the matter will be allowed to drag on much longer and anticipate either settlement of the whole matter in the near future by administrative action, or reference of the subject to the courts.

Special counsel has been retained in order that at the appropriate moment your Company's claims in this connection may be pressed upon the attention of the government, or before the courts, as may be called for

by the treatment accorded other co-operative elevator companies. Until it is known just what that treatment is to be, it will not be possible to say definitely just what this Company's claims will be, or how they will be presented.

In the meantime there is nothing to interfere with payment of a patronage dividend on deliveries made during 1945-46, for which, in accordance with the financial statement, $175,000 has been provided.

Figures above quoted show that total appropriations by your Company for patronage dividends since July, 1940, have been $2,675,000. During the same period appropriations for dividends on shareholders' capital have been over $1,000,000. Ability to make large provision for patronage dividends was due to large wartime earnings, mainly arising from wheat which had to be carried in store during that period. Heavy rates of wartime taxes inevitably made the actual payment of such dividends depend upon the tax position of amounts so appropriated. If competing elevator companies also provided patronage dividends, some of which have recently been announced, that is not necessarily to be attributed to the example of the co-operative companies. It is rather because they found themselves with similar earnings, which could not be retained, but would have to be paid either to customers or to the taxing authorities.

There has been much controversy, which is continuing, about the taxation of co-operatives. In any discussion of possible changes in the law, your Company can be expected to maintain the same position as before the Royal Commission. It has not sought a taxation advantage over competitors, and has protested against its members or customers being put at a competitive disadvantage. It has contended that patronage dividends should be tax exempt, as they have now become. It has opposed any plan which would put at a special disadvantage co-operatives like itself, organized on the Rochdale principle of capital stock, which must provide a return on capital before providing patronage dividends. It has objected to basing the exemption of co-operatives upon the respective percentages of business done with members and non-members, something which would put at a special disadvantage co-operatives whose membership is not on an automatic or almost automatic basis, but instead depends upon an investment.

Whether co-operatives choose to employ interest-free capital or to make a return on capital, as do British co-operatives; whether they allocate their reserves to customers or keep a general reserve, as do British co-operatives; whether membership is granted automatically or is based upon an investment, as is the case in Great Britain: all these are matters to be decided by the membership of each institution in the light of its own experience. But certainly the income tax laws should not be so framed as to penalize, or to force departure from, the sound principles upon which British co-operation is based, and upon which this Company was founded and has been carried on. Protection of the interests of this Company and of its shareholders and customers, in the light of such principles, will be a continuing duty of your Board. Because discussion of the tax problem is continuing, it seems desirable to put this statement on record.

GOVERNMENT GRAIN POLICY

Reference will now be made, for record, to developments during the past year in government grain policy, and particularly to changes announced at the beginning of August, 1946.

UNIFORM FIVE-YEAR PRICE FOR WHEAT: For all wheat delivered by Western farmers between August 1st, 1945, and July 31st, 1950, the Wheat Board initial price has been set at $1.35, basis No. 1 Northern at lakehead or Pacific Coast terminal elevators, and 10c additional is to be paid on deliveries during 1945-46 to bring the former initial Wheat Board price of $1.25 per bushel up to that level. Participation certificates issued during the five-year period will be settled for on a uniform basis after 1950.

A GUARANTEED PRICE: While this is sometimes referred to as a five-year price guarantee, the phrase is applicable only to the final three years of that period. The crop of the first of the five years has already realized more than $1.35 and the crop of the current year will certainly realize a great deal more. Moreover, although this is spoken of as a government guarantee, it is obvious that the government itself takes small risk in the matter and that the guarantee is largely provided by withholding funds belonging to, and ultimately to be paid to, farmers. The surplus left in the hands of the Canadian Wheat Board from handling the crops of 1945-46 and 1946-47 will probably amount to $125,000,000 or more, giving a wide measure of protection against loss if wheat of later years realizes less than $1.35 per bushel. The present guarantee replaces a previous one of $1.00 per bushel for the same period, with individual settlement for different years contemplated. All wheat that farmers can deliver will be accepted for the current year but the government reserves the right to limit deliveries in subsequent years.

THE BRITISH WHEAT AGREEMENT: Before announcing the above described price arrangement, the government of Canada entered into a contract with the government of the United Kingdom for the sale of 600,000,000 bushels of wheat during a four-year period, commencing with the current crop year. During each of the first two years 160,000,000 bushels of wheat are to be sold on a price basis of $1.55 at lakehead and Pacific Coast terminals. Prices for the two following years are to be negotiated later but for the third year of the contract the basis will not be less than $1.25 and for the fourth year not less than $1.00 per bushel. In determining prices for the final two years the United Kingdom government undertakes to have regard to any difference between prices paid and world prices for wheat during the first two years. While the meaning of that undertaking is somewhat indefinite, there is evident recognition of the fact that the United Kingdom is obtaining an immediate price advantage for which some later compensation is offered. Roughly, that advantage might be calculated for the present year at 50c per bushel or a total of $80,000,000.00.

REMOVAL OF EXPORT PRICE CEILING: Concurrently with announcement of the British Agreement the government of Canada lifted the price ceiling of $1.55 which had prevailed for approximately a year on all wheat exported from Canada. Henceforth the Canadian Wheat Board was charged with the duty of selling wheat for export to other countries on the basis of world prices. Such sales began at $2.05 per bushel, subsequently increased to $2.20 per bushel, with the evident intention of keeping as close as possible to open market prices prevailing in the United States as registered on the Chicago market.

PRICE FOR DOMESTIC WHEAT: Wheat for domestic consumption in Canada continues to be sold by the Canadian Wheat Board on the basis of $1.25 per bushel. The government of Canada continues to absorb the difference between that price and 77⅜c per bushel, the wheat price basis on which ceiling prices for flour are established.

A GOVERNMENT WHEAT MONOPOLY: To put these various policies into effect the government wheat monopoly established in Canada, when the market was closed in September, 1943, is continued and farmers are not allowed to dispose of their wheat except to the Canadian Wheat Board. Establishment of that monopoly has greatly changed the status of the Canadian Wheat Board. Previously it had been the duty of that Board to dispose of wheat, for the account of farmers, on the best possible basis. After September, 1943, the government itself assumed primary responsibility in connection with wheat, the price and conditions of sale of which became subject to government policy. Although that fact was not immediately realized, the Wheat Board was transformed from the type of marketing agency it had formerly been, as established by Act of Parliament, and as farmers had been accustomed to think of it, into an instrument for carrying out government instructions and policies. That was clearly shown in August, 1945, when an export price ceiling of $1.55 was placed on wheat, although obviously the Wheat Board could have sold it for higher prices. The ceiling in question was imposed, both as part of the government price control policy, and in order to avoid strain on the national treasury by larger loans to other countries which would have been required had wheat prices been allowed to rise. It was a very similar situation to that which had prevailed in September, 1943, when the market was closed, in order to prevent wheat prices from rising further at that time, which the government then desired to avoid. How completely the government had replaced the Wheat Board in administering the sale of Canadian wheat was shown when the wheat agreement was made with Great Britain, and the undertaking to sell was made, not by the Canadian Wheat Board, but by the government of Canada.

GENERAL COMMENT: The arrangements now in effect should not be regarded as representing a permanent policy. They must rather be considered both as temporary and experimental. Upon the results attained during the four-year period ending in 1950, as well as on the satisfaction which the present arrangement may give to farmers, opinions will be formed and decisions made as to policies later to be followed and machinery to be employed. It will have to be decided both whether a government wheat monopoly is to be continued and the extent to which later sales may be made by inter-governmental contract, or on the basis of prices on a market whether that in Chicago or elsewhere. It will have to be determined how far inter-governmental contracts can eliminate dependence upon a market. Although both Liverpool and Winnipeg markets had been closed, it was not found practicable to make the British wheat agreement without reference to a "world price" for wheat, and dependence upon the Chicago market in that connection. A change may come earlier than 1950. The British contract stipulates that its terms and conditions shall be subject to any modification or amendment to bring it into conformity with any internatonal agreements or arrangements hereafter entered into to which both governments are parties.

While the British wheat agreement has been criticized on various grounds, and particularly that the price basis is too low, it must be remembered that it was made only after protracted negotiations had taken place between the government of Canada and that of the United Kingdom. It should not be assumed that a more satisfactory contract could have been obtained from the United Kingdom. If such inter-governmental contracts for a term of years are to be made, the contract in question must be accepted as typical of what may be expected. Only later can it be determined whether or not it has worked out to the advantage of wheat pro-

ducers. It will be particularly important to observe, over the period, how the proceeds from contract sales compare with those made on the market basis. A test will be provided for the theories, both of those who believe that international trade should be so conducted, and those who advocate its conduct by commercial interests, on the basis of market prices.

There has been a wide divergence in views expressed with respect to the British agreement by various farm organizations and by individual farmers. It should be stated, therefore, that the Canadian Federation of Agriculture was not consulted, nor was your Company directly or indirectly consulted, in advance with respect to the terms of the contract with Great Britain. True, both this Company and the Canadian Federation of Agriculture were on record as urging the government of Canada to participate in negotiations for a general international wheat agreement, which would be expected to lead to stabilization of world prices over a period of years. That, of course, would be something quite different from the contract for sale actually made with Great Britain. It must be doubted whether, in conducting a wheat monopoly, it would be practicable for the government to consult producers or producers' organizations in respect to arrangements it might make for sale.

Similarly, there has been a divergence of views expressed by and on behalf of farmers with respect to arrangements made for prices to be paid to them. Unquestionably many farmers have accepted as satisfactory both the initial price payment and the arrangement for pooling together the returns of successive years. Others have criticized that arrangement and have demanded separate settlement for each year's crop, and have also protested against the initial price basis as being too low. Here again, it must be stated that while both your Company and the Canadian Federation of Agriculture have put on record from time to time the desire of farmers for greater stability in prices from year to year than has formerly prevailed, your Company accepts no responsibility for the price arrangements actually put into effect by the government. It should not be assumed, however, that anything better is likely to be obtained from any government in Canada with the concurrence of other interests in the country. Probably we must recognize that any guaranteed price for a period of years, unless it is to be on a fairly low basis, is not to be obtained in any manner substantially different. The question to be determined on the basis of experience is whether or not such arrangements as are now in effect will meet with the permanent approval of producers.

Coarse Grains: The fixed price for flax, paid by the government, was increased from $2.75, which prevailed in 1945-46, to $3.25 per bushel, in order to encourage greater production. Rye was left as the only grain the price and marketing of which were not controlled. Guaranteed minimum prices were continued, on the basis of 60c per bushel for barley, and 45c for oats, to be implemented by open market buying, when necessary. Such guarantees are only nominal, in view of the very much higher prices for these grains which would prevail, except for controls. The ceiling price basis for oats remains at 51½c per bushel, and for barley at 64¾c per bushel. Producers get an extra 10c per bushel on oats, and 15c per bushel on barley, at time of sale as advance against equalization fees. The premium on malting barley of 5c per bushel is payable this year, whereas during the preceding year it was abolished, and a flat 20c per bushel paid as an advance against equalization fees. Large equalization fees per bushel, up to 90c on barley, are charged on very limited quantities of oats and barley exported. The limitation of exports, and the ceiling prices, have the effect of conserving supplies for livestock feeding, and of keeping down prices

to those who buy feed grains. If free export were permitted, and price ceilings removed, very much higher prices would undoubtedly prevail for oats and barley. Present ceiling prices were established when the average price for wheat was 77⅝c per bushel, from which point a great advance has been permitted, without any corresponding increase in the ceilings for oats and barley. Returns to producers of these grains, and especially to producers of malting barley, are very greatly lessened by the present control measures.

During the war, and immediately after its close, it was assumed as quite proper to limit the income of producers of malting barley, in order that the production of hogs in Canada, and especially in Eastern Canada, might be maintained. How long that assumption will continue to be accepted by such producers is open to question.

THE CANADIAN FEDERATION OF AGRICULTURE AND OTHER AGRICULTURAL ORGANIZATIONS

Your Company has maintained its membership in, and contributions to, the Canadian Federation of Agriculture. The membership of that organization is mainly made up of provincial federations, while certain inter-provincial organizations, like United Grain Growers Limited, are direct members. Support has also been continued to the Alberta Federation of Agriculture and the Manitoba Federation of Agriculture and Co-operation, the affiliates in their respective provinces of the Canadian Federation of Agriculture.

The Canadian Federation of Agriculture participated during May, 1946, in bringing into being the International Federation of Agricultural Producers (I.F.A.P.). The president of the I.F.A.P. is Mr. James Turner, who, in his capacity as president of the National Farmers' Union of Great Britain, has twice visited Canada and was a guest speaker at the 1945 annual meeting of this Company in Winnipeg. Thirty-one different countries were represented at the London meeting. Of these thirteen different countries had established national farm organizations, which were recognized as having a right to take a formal part in the proceedings,, while representatives from other countries were accorded the status of observers. A draft constitution was worked out and signed by the representatives of the thirteen countries, and after it has been officially adopted by the participating organizations will be put into effect at the next meeting of I.F.A.P., to be held early in 1947, as the basis of a permanent organization. In the meantime, a provisional council was established, with Mr. H. H. Hannam, president of the Canadian Federation of Agriculture, as one of the three vice-presidents. Other countries, represented on the provisional council are Holland, France, India, Denmark and Australia. Delegates from the United States took an important part in organization work. Your president was one of the thirteen delegates who represented Canada at the London meeting, and the first vice-president, Mr. Brownlee, also attended, and as an alternate, took part in committee work.

The resolution on which the new organization is based reads as follows:

> "This conference being determined to secure the fullest co-operation between national organizations of agricultural primary producers in meeting the optimum nutritional and consumption requirements of the peoples of the world,

"Resolves to establish an International Federation of Agricultural Producers, and further resolves that the objects of the Federation shall be:

"(a) to advise on and assist inter-government action through the Food and Agriculture Organization of the United Nations and other international bodies in the planning of the production and marketing of agricultural primary producers;

"(b) to promote efficiency of production and marketing of agricultural commodities;

"(c) to co-ordinate action by such national organizations to promote the well-being of all who obtain their livelihood from the land and to assure to them an adequate and steady remuneration."

The president, Mr. Turner, in addressing the conference, laid stress on the work to be done by the new organization in advising governments and inter-governmental agencies. He also emphasized the importance of bringing about a common understanding among farmers of agricultural problems met in different countries of the world, and the development of national farm organizations in those countries where such organizations do not now exist.

Present world scarcities of food were constantly in the minds of delegates present at the conference, and the extent to which increased production, necessary for the feeding of the world, is dependent upon satisfactory conditions for agriculture, as well as on means by which consumers can obtain and pay for the food they need. In this connection there may be quoted extracts from the words of Sir John Boyd Orr, director-general of the Food and Agriculture Organization of the United Nations, who, in addressing the conference said:

"The things that many people have called for in this country and other countries, and have dreamed about for years, will come true; that the world will have a food policy based on human needs and at the same time which would bring prosperity to the agricultural industry.

"The world has to be saved by the exertions of the farmers of the world, and may I express the hope that there should go out from this great conference a message to every individual farm house that can be reached informing them of the desperate situation of the world and asking farmers to co-operate, that in 1946 and 1947 every bit of grain that can be brought from the farm to the market may be produced, even though that means delaying the building up of farm stock. I know that is some sacrifice, but that sacrifice must be made.

"It would be difficult to exaggerate the importance of this international conference of farmer organizations. The day is past when farmers of any one country could for long benefit themselves at the expense of farmers of another country. The nations of the world have agreed to set up a food and agriculture organization on a world scale and the farmers of all countries must be considered on an equal footing."

The provisional council of I.F.A.P. met in Copenhagen, Denmark, during the meeting there in September, 1946, of the Food and Agriculture Organization of the United Nations, commonly referred to as F.A.O. Recognition was given by that body of the right of I.F.A.P. to be consulted by F.A.O.

F.A.O. is an inter-governmental organization, one of the units through which the efforts of the United Nations towards international collaboration are conducted. Its success will not depend entirely upon its own deliberations but will depend also on the degree of success which attends the efforts of the United Nations, to arrive at satisfactory common policies in many different fields, both political and economic. F.A.O. was founded as a result of the Hot Springs Conference on food and agriculture held in 1942. Its formation was in recognition of the fact that greatly increased world food supplies are necessary before the populations of the world can be adequately fed, and also of the fact that reasonable conditions of agricultural prosperity will have to prevail if the required quantities of food are to be made available. F.A.O. is dedicated in the words of its constitution, to:

> "raising levels of nutrition and standards of living of the peoples under their respective jurisdictions, securing improvements in the efficiency of the production and distribution of all food and agricultural products, bettering the condition of rural populations, and thus contributing toward an expanding world economy."

Sir John Boyd Orr, the director-general, is recognized as an authority both on agriculture and on nutrition. He is the author of a plan for a World Food Board, which was brought under discussion at the September meeting in Copenhagen. The plan envisages such a Board as well equipped with finances and acting to buy up world surpluses of food commodities whenever they appear and are offered at less than a certain minimum of prices, while subsequent sale and distribution would be made at a higher and prearranged level of prices. Such a plan, if made effective, would be of special importance to Canada as wheat is the commodity most likely to be stored, and facilities for storage are proportionately greater in Canada than elsewhere in the world. Full Canadian support was given to the idea, which is now being studied by an international committee. Ultimate success will depend upon the degree of support given by many other countries, of which Great Britain and the United States will be of most importance.

If, as seems probable, the Food and Agriculture Organization of the United Nations is to be an important part of the international machinery of the world, the I.F.A.P. may well exercise considerable influence. The ability of Canadian government representatives in F.A.O. to uphold the interests and point of view of Canadian agriculture, and the extent to which the actions of F.A.O. serve the interests of Canadian farmers, may depend in large measure upon the ability and efficiency with which Canadian agriculture is authoritatively represented, both before the government of Canada, and in the International Federation of Agricultural Producers by the Canadian Federation of Agriculture.

As already mentioned, your Company is a part of the Canadian Federation of Agriculture, and contributes to the support of that organization. Your Company also has had many years' experience in making representations on behalf of agriculture, both as an individual organization and in association with other organizations. Such representations are always likely to be more effective when a large degree of unanimity

of opinion prevails among farmers, and also when different organizations are able to unite in presenting that opinion. Farmers' commercial companies cannot, as a rule, do that work effectively alone, for such work requires the participation of provincial educational organizations, able to express authoritatively the opinions of farmers in their respective provinces. Your Company, during its forty years, has contributed steadily, and to a very impressive total, to the support of provincial farm organizations. Such use of Company funds has always been endorsed by the shareholders as in the line of duty towards organized agriculture. There is, however, a danger that such contributions arising from commercial activities may tend towards weakening, instead of strengthening the organizations they are intended to support. if carried to the point that they replace a financial foundation based on the contributions of individual members. The remarkable strength of the Farmers' Unions of Great Britain, which amazes visitors from this side of the Atlantic, is due to the fact that farmers are willing to finance their organizations on the basis of substantial membership fees. Agricultural organization will be stronger in Canada when the membership of provincial bodies is willing to support such institutions on the basis of membership fees.

CONCLUSION

The success of your Company rests now, as it has always rested, on the continuing patronage of many thousand farmers, including both shareholders and customers who have not yet become members. The Board of Directors desires to acknowledge the extent to which such support has contributed to the results reported to you for the past year. Also, the Board wishes to acknowledge the faithful and earnest work, during the past year, of elevator agents and other members of the Company's staff who have helped to make possible the satisfactory position recorded.

Your Company, with its record of forty successful years, is the oldest agricultural co-operative institution of Canada, in addition to being one of the largest. It also, as was made apparent during the sitting of the recent Royal Commission, follows more closely than do other institutions of corresponding size, the principles upon which British co-operatives are organized, commonly referred to as the Rochdale principles, since the Rochdale pioneers are universally recognized as the founders of the modern co-operative movement.

Your Company also takes rank as one of the large and important business institutions of Canada. Your Board of Directors, in taking note of the extent of the Company's facilities, the number of its members, the investment of those members and the amount of their equity and also the extent to which the Company is able to draw upon the credit resources of the country, inevitably feels a deep sense of responsibility. It is fitting, therefore, to say that since the delegate system of representation was first established in 1917, that same sense of responsibility has always been manifested by delegates entrusted by the shareholders with the task of representing them in Annual Meetings. The work of the Board of Directors has been made easier, and the Company has been continually strengthened by reason of that fact, which is properly recorded here on this occasion of the Company's fortieth Annual Meeting.

The years immediately ahead will bring changes which will require adjustments both in the agricultural practices of farmers and in the agricultural policies of Canada. Changes and developments are now so rapid and so frequent, that it would be difficult to forecast far in advance

what adjustments may be required to meet them. The most significant developments will be in the world political situation. If, as is earnestly to be hoped, these are such as to encourage the expectation of continuing peace in the world, we can look forward to an expanding world trade and to satisfactory conditions relating to the export of farm products. If, however, apprehensions of future war form the major concern of mankind, it will be difficult, if not impossible, to re-establish conditions for a prosperous world economy. The Canadian response to one set of conditions and the agricultural policies suited thereto will be quite different from those appropriate to another set of conditions.

On the domestic scene perhaps the most important developments immediately ahead relate to the problem of continuing price controls. Already such controls in Canada have been relaxed to some considerable extent and doubts are beginning to be expressed as to the length of time it will be possible for the Government of Canada to continue such price controls as now exist, and these doubts are based upon both political and constitutional reasons. Farmers on the whole have submitted, since the beginning of the late war, to very rigorous controls affecting the prices of their products and the amount of their incomes. They recognized, during the war, an obligation to suffer both inconvenience and loss if thereby they might strengthen the war policies of the government. Since the end of the war they have recognized such limitations as essential to any general policy of price control. But as controls governing prices of goods and services for which farmers must pay are relaxed, there will be greater reluctance on their part to accept such continuing limitations on their prices and incomes as now prevail. At this moment it is not possible to predict just when changes will come about, but some changes before very long are probably inevitable. It will remain a continuing duty of agricultural organizations, and in particular of your own Company, to be alert with a view to protecting as fully as possible the interests of the farming people of Western Canada.

ADDITIONAL NOTE

The above report deals with the taxation of co-operatives and patronage dividends. (See pages 18 to 20). Since it was printed, the Government has advised the Company that it will not be taxed on patronage dividends appropriated for past years.

Accordingly, the Company is proceeding to pay patronage dividends on all grain delivered at U.G.G. elevators between August 1st, 1942 and July 31st, 1945.

Payment will be made in cash to all customers, both shareholders and non-shareholders, as speedily as possible.

Payments now to be made will amount to more than $2,500,000.00, bringing the total of U.G.G. patronage dividends for past years to approximately $3,000,000.00.

UNITED GRAIN GROWERS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING JULY 31, 1946

EARNINGS for the year ending July 31, 1946.... After charging $175,000.00 for patronage dividend but before charging or providing for the undernoted:		$1,180,134.22
Deduct:		
Interest on bonds	$ 91,447.67	
Directors' fees	9,485.00	
Counsel and legal fees and remuneration of salaried directors	40,208.35	
Annual meeting expenses	19,929.07	
Provision for depreciation	503,885.59	
		664,955.68
		$ 515,178.54
Deduct:		
Provision for income and excess profits taxes—estimated		215,000.00
Profit for year		$ 300,178.54
Add:		
Earned surplus—Balance at credit July 31, 1945		598,457.91
		$ 898,636.45
Deduct:		
Appropriation for the purpose of redeeming and cancelling 788 Class A shares of the company's capital stock	$ 12,763.00	
Dividend of five per cent declared on Class A shares	141,696.00	
Provision for dividend on Class B shares	13,571.00	
Balance of bond discount and expenses as at July 31, 1945, now written off	67,201.88	
Charges incurred in connection with the refinancing of First Mortgage Bonds during the year—net	45,402.60	
		280,634.48
Earned surplus July 31, 1946		$ 618,001.97

UNITED GRAIN GROWERS LIMITED AND

Consolidated Balance Sheet,

ASSETS

Current and Working Assets:			
Cash on hand and in banks		$ 1,815,622.39	
Dominion of Canada bonds—at cost Par value $1,806,500.00—quoted value July 31, 1946, $1,896,000.00.		1,890,500.00	
Accounts and bills receivable, less reserve for doubtful accounts Including storage, carrying charges and other accruals.		566,030.71	
Inventories: As determined and certified by responsible officers of the Companies:			
Grain Representing net book stocks of wheat and flax acquired on behalf of and deliverable to The Canadian Wheat Board, valued on basis of fixed prices set by that Board, and stocks of coarse grains valued on basis of quoted market prices.	$ 2,506,151.02		
Twine, coal and sundry merchandise—at cost	834,912.37		
		3,341,063.39	
Deferred and prepaid charges		121,256.80	
			$ 7,734,473 29
Investments:			
Memberships		$ 1.00	
Common stocks		1,661 00	
Mortgages and agreements of sale The memberships and common stocks are carried at cost less amounts written off.		95,578.69	
			97,240 69
Employees' Pensions: Representing payment to the Annuities Branch of the Dominion Government—less amounts written off.			187,541.44
Capital Assets			
Country and terminal elevators, sites, warehouses and equipment, etc.—at cost		$12,164,646.53	
Less—Reserves for depreciation		7,193,073.89	
		$ 4,971,572.64	
Publication establishment account: Establishment costs of "The Country Guide"—net		93,275.93	
			5,064,848 57
			$13,084,103.99

Approved on behalf of the Board of Directors:

R. S. Law
J. E. Brownlee } *Directors*

Auditors' Report to the Shareholders:

We have made an examination of the books and accounts of United Grain Growers Limited and its subsidiary companies for the fiscal yea
The cash in banks was confirmed by certificates obtained by us direct from the companies' bankers and the Dominion of Canada bon
opinion, for possible losses on accounts doubtful of collection. The stocks of grain, twine, coal and sundry merchandise have been certified by
31, 1946, have been taken up on the books as at that date; the matter of income and excess profits taxes in relation to patronage dividends, a
We have obtained all the information and explanations we have required, and, subject to the foregoing remarks, we report that, in our
correct view of the state of the combined companies' affairs according to the best of our information and the explanations given to us and as

Winnipeg, October 19, 1946.

ITED AND SUBSIDIARY COMPANIES

Balance Sheet, July 31, 1946

LIABILITIES

Current Liabilities:			
Grain cash tickets and orders outstanding. . . .		$ 1,147,849.21	
Accounts payable and accrued liabilities.		1,101,742.15	
Reserve for income and excess profits taxes. .		685,109.08	
Note: Instalment payments in respect of estimated income and excess profits taxes have been suspended as from October 1, 1944.			
Patronage Dividends:			
Amounts provided for the four fiscal years ending July 31, 1942 to 1945 inclusive, in respect of grain receipts in those years, but held in reserve pending determination of the company's liability, if any, for income and excess profits taxes in connection therewith.	$ 2,300,000.00		
Amount provided for the fiscal year ending July 31, 1946, in respect of grain receipts in that year.	175,000.00		
		2,475,000.00	
Shareholders' dividends.		169,451.59	
Including unclaimed dividends of prior years.			$ 5,579,152.03
First Mortgage Bonds:			
Authorized $7,500,000.00			
Issued:			
Serial bonds—3 per cent, maturing in annual amounts of $200,000.00 commencing July 2, 1947.			2,000,000.00
Capital Reserve and Surplus:			
Capital Stock:			
Class A non-cumulative redeemable preferred shares:			
Authorized 200,000 shares—par value $20.00 each.			
Outstanding 141,696 shares— . . . . after redemption of 6,626 shares to date.	$ 2,833,920 00		
Class B (membership) shares:			
Authorized 200,000 shares—par value $5.00 each.			
Outstanding 50,235 shares.	251,175.00		
exclusive of 4,049 shares acquired and held in Treasury.		$ 3,085,095.00	
General reserve.		1,647,057.42	
Capital surplus.		154,797.57	
Including amount of $15,760.00 arising from redemption of Class A shares during the year.			
Earned surplus.		618,001.97	
In terms of separate statement.			5,504,951.96
			$13,084,103.99

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companies for the fiscal year ending July 31, 1946, and all our requirements as auditors have been complied with.
Dominion of Canada bonds were verified by examination thereof or by certificate from the depositary; adequate provision has been made, in our
ise have been certified by responsible officers of the companies and we have taken reasonable care to satisfy ourselves that all liabilities as at July
to patronage dividends, as noted above, awaits final clarification. Depreciation for the year has been provided for in full at the customary rates.
ks, we report that, in our opinion, the above consolidated balance sheet as at July 31, 1946, is properly drawn up so as to exhibit a true and
nations given to us and as shown by the books of the companies.

PRICE, WATERHOUSE & CO.,
Auditors.